

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Newaygo Area District Library	County Newaygo
Audit Date 12/31/05	Opinion Date 6/14/06	Date Accountant Report Submitted to State: 6/30/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) BRICKLEY DELONG PLC			
Street Address 500 TERRACE PLAZA PO BOX 999		City MUSKEGON	State MI
Accountant Signature <i>Timothy D. DeLong, C.P.A. for Brickley DeLong, PLC</i>		ZIP 49443	Date 6/30/06

Newaygo Area District Library
Newaygo, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

December 31, 2005

Newaygo Area District Library

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Newaygo Area District Library

Management's Discussion and Analysis

Brief Discussion of the Basic Financial Statements

This report consists of three parts – *management's discussion and analysis* (this section), *the basic financial statements*, and *required supplementary information*. The basic financial statements include information that presents two different views of the library.

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. These financial statements focus on current resources and provide a detailed view about the Library's sources and uses of funds.
- The "Adjustments" column of the financial statements represents adjustments necessary to convert the modified accrual statements to the government-wide financial statements under the full accrual method.
- The third column provides both long-term and short-term information about the Library's overall financial status. The "Statement of Net Assets" and the "Statement of Activities" provide information about the activities of the Library as a whole and present a longer term view of the Library's finances.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Since this is the first year of the Library's district status, comparative information is not available. In future years, when prior year information is available, a comparative analysis of data will be presented.

A. Statement of Net Assets

Net assets are equal to total assets minus total liabilities. Net assets can be further segregated into invested in capital assets and unrestricted net assets. Net assets invested in capital assets include the Library's collections of materials as well as its fixed assets, minus depreciation. These capital assets are not readily available for the payment of bills. Unrestricted net assets are not restricted and are available for operating expenditures.

Condensed Statement of Net Assets

	2005
Current assets	\$ 201,152
Capital assets	132,259
Total assets	333,411
Current liabilities	42,733

Newaygo Area District Library

Management's Discussion and Analysis

	<u>2005</u>
Net assets	
Invested in capital assets, net of related debt	\$ 132,259
Unrestricted net assets	<u>158,419</u>
Total net assets	<u>\$ 290,678</u>

Analysis and Discussion

- Current assets include cash, grant funding, and investments.
- Capital assets consist of the Library's collections of materials and furnishings, minus accumulated depreciation.
- Deferred revenue represents Fremont Area Community Foundation grant monies not yet spent.

B. Statement of Activities

The table below shows key financial information under the full accrual method in a condensed format. Amounts and totals reported are for all Library activities, including general operations, improvements, and gift activity in order to give a complete picture.

Condensed Statement of Activities

	<u>2005</u>
REVENUES	
Intergovernmental revenues—local	\$ 3,691
Fines and forfeitures	1,792
Investment earnings	574
Contributions	19,491
Other	<u>83</u>
Total revenues	25,631

Newaygo Area District Library

Management's Discussion and Analysis

	<u>2005</u>
EXPENDITURES	
Current	
Salaries and wages	\$ 26,126
Fringe benefits	3,311
Operating supplies	1,032
Repairs and maintenance	388
Professional services	7,505
Utilities	1,502
Insurance	2,700
Dues and fees	425
Contracted services	5,448
Telephone	860
Other	433
Depreciation	<u>10,748</u>
Total expenditures	<u>60,478</u>
Change in net assets	(34,847)
Net assets at September 1, 2005	<u>325,525</u>
Net assets at December 31, 2005	<u><u>\$ 290,678</u></u>

Analysis and Discussion

1. Revenues

- The primary sources of revenue for this four month period were capital grants and contributions. This revenue accounted for 79% of the budget.
- Intergovernmental revenues consist primarily of monies received from a township for branch library services. This figure is abnormally low due to the shortened fiscal period; other intergovernmental revenues were received prior to September, 2005.
- Grants and contributions included a number of grants from the Fremont Area Community Foundation and several minor contributions to the Library.
- Other revenues consisted of fines and forfeitures, investment earnings, and miscellaneous other items.

2. Expenditures

- Because of the service nature of libraries, salaries and fringe benefits are a significant expenditure for the Library, representing 49% of the Library's total expenditures.
- Professional and contracted services accounted for 21% of expenditures. This unusually high percentage was related to planning for a new building and contractual negotiations with the Library's branch.

The Library's Fund

The financial statements of the Library's General Fund are included on pages 2 and 3. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities, such as special property tax millages. The Library's major fund consists solely of the General Fund.

The fund balance of the General Fund decreased during the current year by \$36,228. This is due to unusually high professional and contracted services expenditures related to the establishment of the district library, negotiations with the Library's branch, and planning for a new Library building. Another factor was a change in leadership midway through this period and increased expenses related to the Library's cooperative service fees. Some of these costs were offset by a grant to help with the planning for a new library building.

Library Budgetary Highlights

Over the course of this four month period, the Library Board amended the budget to address unplanned needs and events that occurred during this time. The Board of Trustees estimated the four month period based on 33.3% of the budget for the previous fiscal year. The more significant adjustments are located below.

A. Revenues

- State intergovernmental revenues were adjusted to zero since no revenues were received during the short year period.
- Local intergovernmental revenues were reduced since the bulk of these revenues were received prior to the short year period.
- Fines and forfeitures were reduced to reflect the short year period.
- Contributions were reduced to reflect the short year period.

B. Expenditures

- Salaries and wages were amended lower due to a change in leadership midway through the short year period.
- Professional and contracted services were amended lower to reflect the short year period.

Budget to Actual

Actual revenues were 4% under budget. Actual contribution revenues were 57% over budget due to additional grants related to the building program that were not anticipated in the original budget. Actual local intergovernmental revenues were 32% under budget due to the bulk of these revenues being received prior to the short year period. Actual expenditures were 3% under budget.

Newaygo Area District Library

Management's Discussion and Analysis

Capital Assets

At the end of the fiscal year, the Library had \$132,259 invested in furniture, equipment, books and materials net of depreciation. The Library added \$9,532 in new collection items consisting of new books and various audio/visual materials.

Next Year's Anticipated Budget Factors and Currently Known Facts

- A. Budget – Expenditures related to salaries and fringe benefits are expected to increase as current staffing vacancies are filled with professional librarians. Professional and contracted services expenditures will continue to remain high due to plans for a new library building. The library will continue to be dependent upon grant funding. Additional monies will be allocated for adult and children's programming.
- B. Local intergovernmental revenues – Funding will remain the same with the City of Newaygo tax levy and township appropriations.
- C. Library Branch – Ongoing service contract negotiations with the Library branch will continue. As the branch has historically operated on a deficit, alternative options for servicing branch residents must be explored.
- D. Large Grant Activities – We anticipate implementing a capital campaign in late 2006.

Contacting the Library's Financial Management

This financial report is designed to provide a general overview of the Library's finances for all those interested in the Library's finances. If you have any questions about this report or need additional information, contact the Newaygo Area District Library Director, 44 North State Road, Newaygo, MI 49337-8127.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

June 14, 2006

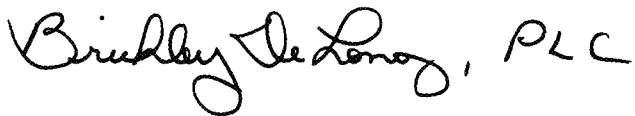
Board of Directors
Newaygo Area District Library
Newaygo, Michigan

We have audited the accompanying financial statements of the Newaygo Area District Library as of and for the four months ended December 31, 2005, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Newaygo Area District Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Newaygo Area District Library as of December 31, 2005 and the changes in financial position thereof for the four months then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i - v and 11 are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Newaygo Area District Library
BALANCE SHEET—STATEMENT OF NET ASSETS
December 31, 2005

	Balance Sheet - Modified accrual	Adjustments	Statement of Net Assets - Full accrual
ASSETS			
Cash and cash equivalents	\$ 195,529	\$ -	\$ 195,529
Grant receivable	5,623	-	5,623
Capital assets, net of depreciation			
Depreciable	<u>-</u>	<u>132,259</u>	<u>132,259</u>
Total assets	<u><u>\$ 201,152</u></u>	132,259	333,411
LIABILITIES			
Accounts payable	\$ 3,380	-	3,380
Accrued liabilities	345	-	345
Deferred revenue	<u>44,187</u>	<u>(5,179)</u>	<u>39,008</u>
Total liabilities	47,912	(5,179)	42,733
FUND BALANCE			
Unreserved	<u>153,240</u>	<u>(153,240)</u>	<u>-</u>
Total fund balance	<u>153,240</u>	<u>(153,240)</u>	-
Total liabilities and fund balance	<u><u>\$ 201,152</u></u>		
NET ASSETS			
Invested in capital assets		132,259	132,259
Unrestricted		<u>158,419</u>	<u>158,419</u>
Total net assets		<u><u>\$ 290,678</u></u>	<u><u>\$ 290,678</u></u>

The accompanying notes are an integral part of this statement.

Newaygo Area District Library
**STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCE—STATEMENT OF ACTIVITIES**
 Four months ended December 31, 2005

	Revenues and Expenditures - Modified accrual	Adjustments	Statement of Activities - Full accrual
REVENUES			
Intergovernmental revenue—local	\$ 3,691	\$ -	\$ 3,691
Fines and forfeitures	1,792	-	1,792
Investment earnings	574	-	574
Contributions	16,894	2,597	19,491
Other	83	-	83
	<hr/>	<hr/>	<hr/>
Total revenues	23,034	2,597	25,631
EXPENDITURES			
Current			
Salaries and wages	26,126	-	26,126
Fringe benefits	3,311	-	3,311
Operating supplies	1,032	-	1,032
Repairs and maintenance	388	-	388
Professional services	7,505	-	7,505
Utilities	1,502	-	1,502
Insurance	2,700	-	2,700
Dues and fees	425	-	425
Contracted services	5,448	-	5,448
Telephone	860	-	860
Other	433	-	433
Capital outlay	9,532	(9,532)	-
Depreciation	-	10,748	10,748
	<hr/>	<hr/>	<hr/>
Total expenditures	59,262	1,216	60,478
Change in fund balance—net assets	(36,228)	1,381	(34,847)
Fund balance—net assets at September 1, 2005	<hr/> 189,468	<hr/> 136,057	<hr/> 325,525
Fund balance—net assets at December 31, 2005	<u>\$ 153,240</u>	<u>\$ 137,438</u>	<u>\$ 290,678</u>

The accompanying notes are an integral part of this statement.

Newaygo Area District Library
NOTES TO FINANCIAL STATEMENTS
December 31, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Newaygo Area District Library (Library) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are listed below.

Reporting Entity

The Library was established in September 2005 by a district library agreement between the City of Newaygo, Brooks Township and Garfield Township pursuant to the District Library Establishment Act. The boundaries include most of the participating municipality boundaries except those already covered by another district library. The Library is governed by a seven member Library Board. Each participating municipality appoints two members and the seventh member is appointed by one of the municipalities on a rotating basis. The Library is administered by a director appointed by the Board. As part of this agreement, all assets of the Newaygo Carnegie Library, a component unit of the City of Newaygo, were contributed to the Library.

The Library is currently funded primarily by contribution from the establishing municipalities, fines, fees and state aid. The Library has until December 31, 2007 to pass a millage with not less than 1.6 mills of funding. If the Library is unable to pass a millage by the above date all net assets of the Library transfer back to the City of Newaygo.

Generally accepted accounting principles require that if the Library has certain oversight responsibilities over other organizations, those organizations should be included in the Library's financial statements. Since no organizations met this criteria, none are included in the financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Library. Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Since the Library only has one fund, no separate columns have been provided.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, operating statements present increases and decreases in net current assets, and unreserved fund balance is a measure of available spendable resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, compensated absences and claims and judgments, are recorded only when payment is due.

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

Newaygo Area District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus and Basis of Accounting—Continued

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the Library's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Fund Equity or Net Assets

Deposits and Investments

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Library reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed and the Library intends to hold the investment until maturity.

The Library has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Library to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers' acceptances, state-approved investment pools and certain mutual funds.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The prepaid items recorded in the governmental fund types do not reflect current appropriable resources and, thus, an equivalent portion of fund balance is reserved.

Capital Assets

Capital assets, which include library books, periodicals, etc. and equipment are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year with exception of library books, periodicals, etc. which are all recorded as capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Library books and equipment of the Library are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Library books, periodicals, etc.	5-10
Furniture and equipment	5

Newaygo Area District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Compensated Absences

The Library's employees are granted vacation and sick leave in varying amounts based upon length of service and position. Unused vacation time does not accumulate from year to year. Sick leave is accumulated at different rates for various categories of employees. Unused sick leave accumulates from year to year. Unused accumulated sick leave is forfeited at the time of retirement.

Fund Balance and Net Assets

Reservations and restrictions represent amounts that are not appropriable or are legally segregated for a specific purpose.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets, as required by state statutes, are adopted on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

The Library follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to the beginning of the year, the Library Director submits to the Library Board a proposed operating budget for the year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Not later than December 31, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Library Board. All appropriations lapse at year end.

The appropriated budget is prepared by individual revenue and expenditure line item. The legal level of budgetary control is the individual line item. The Library Board made several supplemental budgetary appropriations throughout the year.

Newaygo Area District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE C—DEPOSITS AND INVESTMENTS

Interest rate risk. The Library does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issues by nationally recognized statistical rating organizations (NRSROs). The Library has no investment policy that would further limit its investment choices.

Concentration of credit risk. The Library does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk - deposits. The Library does not have a custodial credit risk policy for deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. As of December 31, 2005, \$99,041 of the Library's bank balance of \$199,041 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. The Library does not have a custodial credit risk policy for investments. In an investment, this is the risk that in the event of the failure of the counterparty, the Library's will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Foreign currency risk. The Library is not authorized to invest in investments which have this type of risk.

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

	Balance September 1, 2005	Additions	Deductions	Balance December 31, 2005
Capital assets, being depreciated:				
Library books, periodicals, etc.	\$ 701,252	\$ 9,532	\$ -	\$ 710,784
Furniture and equipment	64,407	-	-	64,407
Total capital assets, being depreciated	765,659	9,532	-	775,191
Less accumulated depreciation:				
Library books, periodicals, etc.	567,777	10,748	-	578,525
Furniture and equipment	64,407	-	-	64,407
Total accumulated depreciation	632,184	10,748	-	642,932
Capital assets, net	\$ <u>133,475</u>	\$ <u>(1,216)</u>	\$ <u>-</u>	\$ <u>132,259</u>

Newaygo Area District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

NOTE E—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

Unearned	\$ 39,008
Unavailable	<u>5,179</u>
Total deferred revenue for governmental funds	<u><u>\$ 44,187</u></u>

NOTE F—COMMITMENTS

Facility Lease

The Library entered into a five year and four month lease agreement for the Library's operating facilities. The lease requires annual rentals of \$1 and payment of all occupancy expenses.

NOTE G—OTHER INFORMATION

Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Library carries commercial insurance. Liabilities in excess of insurance are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There have been no losses in excess of insurance in the prior three years.

**NOTE H—RECONCILIATION OF GENERAL FUND FINANCIAL STATEMENTS TO
GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Total fund balance—governmental funds	\$ 153,240
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Amounts reported for governmental activities in the
Statement of Net Assets are different because:

Other receivables in governmental activities not reported in the governmental funds.	5,179
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Capital assets used in governmental activities are not current financial
resources and are not reported in the governmental fund.

Cost of capital assets	\$ 775,191	
Accumulated depreciation	<u>(642,932)</u>	<u>132,259</u>

Net assets of governmental activities in the Statement of Net Assets	<u><u>\$ 290,678</u></u>
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Newaygo Area District Library
NOTES TO FINANCIAL STATEMENTS—CONTINUED
December 31, 2005

**NOTE H—RECONCILIATION OF GENERAL FUND FINANCIAL STATEMENTS TO
GOVERNMENT-WIDE FINANCIAL STATEMENTS—Continued**

Net change in fund balances - total governmental funds	\$ (36,228)
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Amounts reported for government activities in the Statement of Activities are different because:

Revenue reported in the Statement of Activities that does not provide current financial resources are not reported as revenue in the governmental funds.	2,597
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Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated and amortized over their estimated useful lives.

Depreciation expense	\$ (10,748)	
Capital outlay	<u>9,532</u>	<u>(1,216)</u>
Change in net assets in governmental activities	\$	<u><u>(34,847)</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

Newaygo Area District Library
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Four months ended December 31, 2005

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
Revenues				
Intergovernmental revenues				
State	\$ 2,977	\$ -	\$ -	\$ -
Local	32,058	11,541	3,691	(7,850)
Fines and forfeitures	18,081	1,303	1,792	489
Investment earnings	366	321	574	253
Contributions	36,396	10,750	16,894	6,144
Other	514	44	83	39
Total revenues	90,392	23,959	23,034	(925)
Expenditures				
Current				
Salaries and wages	36,084	27,000	26,126	874
Fringe benefits	3,466	3,107	3,311	(204)
Operating supplies	1,398	1,185	1,032	153
Repairs and maintenance	497	372	388	(16)
Professional services	25,116	8,200	7,505	695
Utilities	2,076	1,500	1,502	(2)
Insurance	3,229	2,700	2,700	-
Dues and fees	526	425	425	-
Contracted services	7,904	5,657	5,448	209
Telephone	333	905	860	45
Other	1,328	368	433	(65)
Capital outlay	12,435	9,845	9,532	313
Total expenditures	94,392	61,264	59,262	2,002
Net change in fund balance	\$ (4,000)	\$ (37,305)	(36,228)	\$ 1,077
Fund balance at September 1, 2005			189,468	
Fund balance at December 31, 2005			\$ 153,240	

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

June 14, 2006

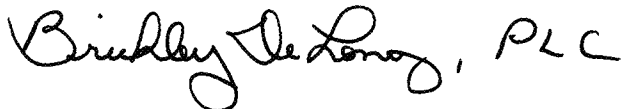
Board of Directors
Newaygo Area District Library
Newaygo, Michigan

In planning and performing our audit of the financial statements of Newaygo Area District Library for the four months ended December 31, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matter involving the internal control and its operation that we consider to be a reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Newaygo Area District Library's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of the reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we do not believe any of the attached reportable conditions are material weaknesses.

This report is intended solely for the information of the Board of Directors, management, and others within the administration and is not intended to be and should not be used by anyone other than these specified parties.



REPORTABLE CONDITION

Recommendation 1: The internal control procedures should be further segregated.

Small organizations with limited resources and personnel inherently have difficulty in establishing and maintaining an accounting system with strong internal accounting controls including significant segregation of duties.

The Library should seek opportunities to further segregate duties and strengthen internal controls. Often, the most effective approach is the assignment of a Board member to open and scan monthly bank statements.

Recommendation 2: An imprest petty cash fund should be established.

Presently, petty cash expenditures are disbursed from the cash receipts drawer and recorded in the general ledger through daily cash sheet.

The utilization of an imprest petty cash fund, which requires reimbursements of the petty cash fund by the general bank account to the extent of documented petty cash expenditures, would enhance the controls surrounding miscellaneous cash disbursements.

Recommendation 3: A system for monitoring unused sick and vacation pay should be established.

During our review of procedures, we noted that there is not a system in place to monitor the accumulation and use of sick and vacation pay.

A system should be implemented to monitor the accumulation and use of sick and vacation pay on at least a monthly basis to help ensure that amounts utilized during periods of employment and amounts paid out when employees terminate are accurate.

Recommendation 4: Payroll checks should be prepared and paid after the pay period has ended.

During our testing, we noted that payroll is prepared the day before the pay period ends. Since payroll is prepared prior to the payroll period ending, the actual hours worked are not known. The final hours worked are estimated based upon the scheduled worked hours.

We recommend that the payroll pay date be adjusted to after the payroll period ends. The Library's current payroll periods end on Saturday. We would recommend that the actual payroll payment date be moved at a minimum to the Tuesday following Saturday that ends the pay period.

Recommendation 5: Procedures should be developed for recording collections additions during the year including additions, disposals and donations received.

During our testing, we noted additions per the Library accounting records did not agree to the Lakeland Library Cooperatives collections listing. In addition, it appears there are limited procedures to ensure that books are properly recorded.

We would recommend that the Library review its fixed asset procedures related to collection. We would recommend that during the review process the procedures be designed to fully utilize resources available on the Lakeland Library Cooperative inventory system.